

Department of General Services

**For the Years Ended
June 30, 2001, and June 30, 2000**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

July 16, 2002

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable Edward B. Jones, Commissioner
Department of General Services
Suite 2400, Tennessee Tower
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of General Services for the years ended June 30, 2001, and June 30, 2000.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in a finding, which is detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
02/057



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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May 6, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of General Services for the years ended June 30, 2001, and June 30, 2000.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of General Services' compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of General Services is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed a finding, which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of General Services' management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of General Services
For the Years Ended June 30, 2001, and June 30, 2000

AUDIT SCOPE

We have audited the Department of General Services for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of motor vehicle management, internal audit, expenditures, contracts, the fleet management system, and compliance with the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

AUDIT FINDING

Controls Over Commercial Credit Cards Are Inadequate

The department failed to maintain adequate controls over commercial credit cards. Receipts supporting invoices were not always maintained, payments were not always made in compliance with state law, and credit cards were not always properly used (page 4).

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of General Services
For the Years Ended June 30, 2001, and June 30, 2000

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Department of General Services

For the Years Ended June 30, 2001, and June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of General Services. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

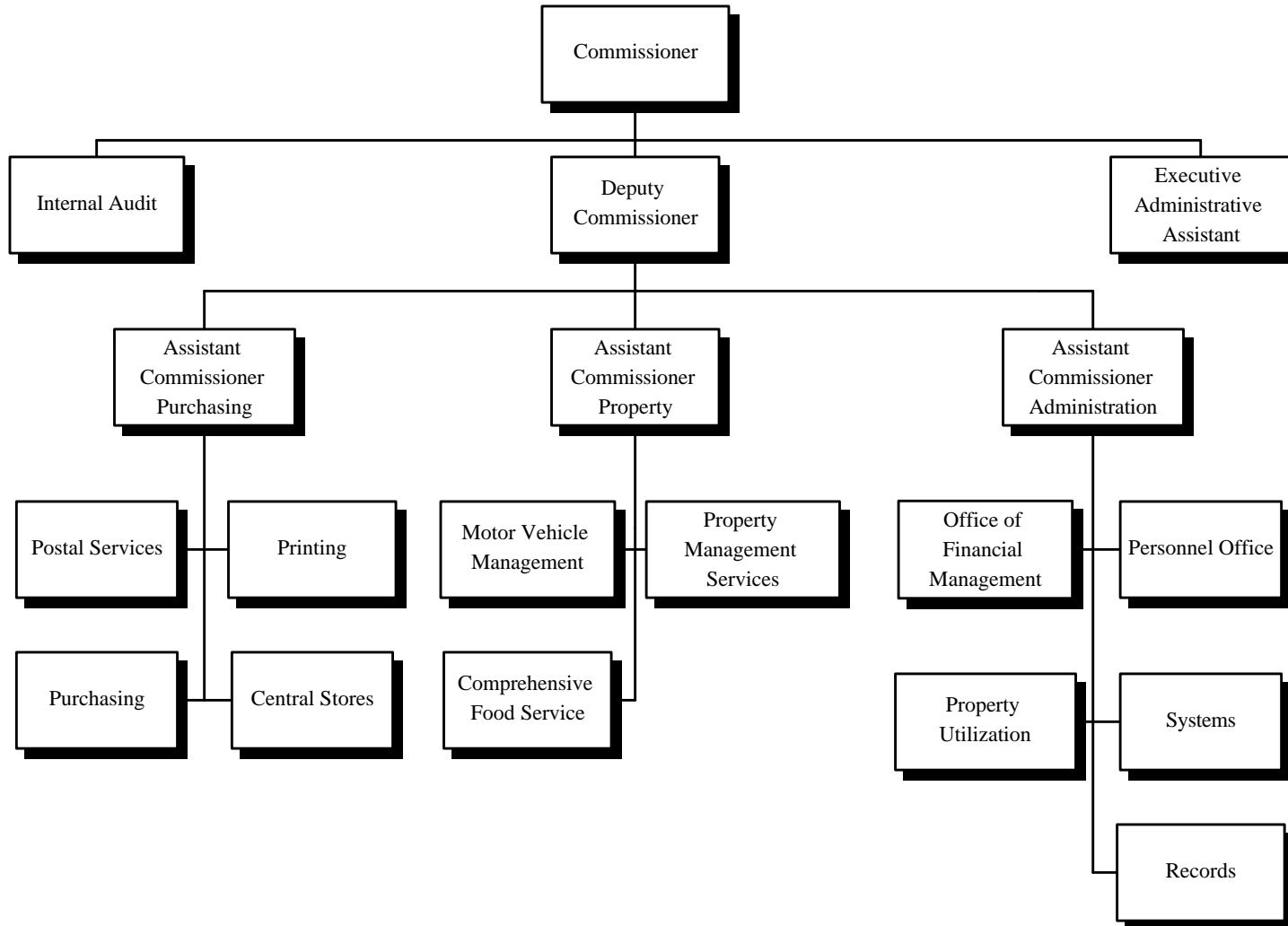
The mission of the Department of General Services is to provide quality goods and services to all state agencies to facilitate the operation of state government in the most timely, efficient, and economical manner. To accomplish this mission, the department provides a broad range of support services to other departments and agencies of state government. Those services include procurement of equipment and materials, building management and security, motor vehicle and equipment management, surplus property utilization, printing and photographic services, postal services, food services, records management, and central stores.

The department is comprised of four main areas: the Commissioner’s Office, Administrative Services, Property Management, and Purchasing Management. Each area consists of several divisions. An organization chart of the department is on the following page.

AUDIT SCOPE

We have audited the Department of General Services for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management’s controls and compliance with policies, procedures, laws, and regulations in the areas of motor vehicle management, internal audit, expenditures, contracts, the fleet management system, and compliance with the

Tennessee Department of General Services



Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of General Services filed its report with the Department of Audit on April 19, 2001. A follow-up of all prior audit findings was conducted as part of the current audit.

The current audit disclosed that the Department of General Services has corrected previous audit findings concerning security guards working excessive hours, the lack of documentation to support access to the Tennessee On-line Purchasing System (TOPS), and the need for improved controls over program changes in TOPS. The finding concerning the need for improved controls over program changes in TOPS was not resolved until after June 30, 2000, and was included in the *Single Audit Report* for the fiscal year ended June 30, 2000.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

MOTOR VEHICLE MANAGEMENT

Our objectives were to determine whether

- state vehicles were properly maintained;
- adequate records were kept for the use and maintenance of state vehicles;
- commercial credit cards were used only for the purpose issued;
- Fuelman® purchases were reviewed and reconciled on a timely basis and were made in accordance with the state's contract; and
- motor vehicle management revenues were properly supported, accurate, and recorded in a timely manner.

We interviewed key department personnel and reviewed supporting documentation to gain an understanding of the department's procedures and controls over Motor Vehicle

Management (MVM). We selected a nonstatistical sample of vehicles to determine whether adequate records were kept for the use and maintenance of state vehicles and whether the vehicles were properly maintained. We selected a nonstatistical sample of commercial credit card and Fuelman® billings to determine whether purchases were made in compliance with the department's policies. We selected a nonstatistical sample of MVM revenue items to determine whether the receipts were properly supported, accurate, and recorded in a timely manner.

Our testwork indicated that state vehicles appeared to be properly maintained and adequate records were kept. We also determined that MVM revenues appeared to be properly supported, accurate, and recorded in a timely manner, and the Fuelman® purchases appeared to be properly reviewed, reconciled, and in compliance with the state's contract. We found that commercial credit card receipts were missing, invoices were not paid on time, and the credit cards were inappropriately used, as noted in the following finding.

Finding, Recommendation, and Management's Comment

Controls over commercial credit cards are inadequate

Finding

The Department of General Services, Motor Vehicle Management Division (MVM), issues commercial credit cards to operators of state vehicles for out-of-state travel or emergency purchases and for high-usage vehicles such as vehicles used by the Tennessee Highway Patrol. The department failed to maintain adequate controls over these cards. Receipts supporting invoices were not always maintained, payments were not always made in compliance with state law, and credit cards were not always properly used.

Missing Receipts

Companies that accept the commercial credit cards send copies of receipts as support for the monthly invoices. In addition, Section IV of the *Motor Vehicle Management Operator's Guide* requires vehicle operators to send receipts for fuel purchases to the accounting section of MVM. Vehicle operators do not always submit receipts as required. MVM did not always keep the copies of the receipts that were submitted by vendors. The receipts supporting charges on 7 of 40 invoices selected for testwork (18%) were missing. Proper internal control requires that backup documentation be kept for all transactions. Failure to retain the receipts for individual transactions leaves management with no way to accurately verify the charges on the invoices, and the department runs the risk of paying for charges that are incorrect.

Untimely Payments

The Department of General Services is responsible for paying all commercial credit card invoices for charges incurred by various departments in their duties of operating state vehicles. However, the department did not always pay these invoices in a timely manner. Section 12-4-703, *Tennessee Code Annotated*, states,

An agency which acquires property or services pursuant to a contract with a business shall pay for each complete delivered item of property or service in accordance with the provisions of the contract between the business and agency or, if no date or other provision for payment is specified by contract, within forty-five (45) days after receipt of the invoice covering the delivered items or services.

For the 31 invoices tested, 6 (19%) were paid past the 45-day limit. Failure to pay invoices in a timely manner damages the relationship that the state has with vendors and could impede future opportunities for state business.

Inappropriate Use

Commercial credit cards are to be used only in case of an emergency or when no Fuelman® station is available as indicated in Section IV of the *Motor Vehicle Management Operator's Guide*. Of the 33 transactions tested, 7 (21%) were made in a community where a 24-hour Fuelman® service station was available. When commercial credit cards are not used for their intended purpose, the department runs the risk that cards will be abused.

Recommendation

The director of the Motor Vehicle Management Division (MVM) should ensure that all copies of receipts supporting the commercial credit card invoices are retained. Also, MVM should ensure that invoices are paid in a timely manner. MVM should remind vehicle operators that they are required to submit copies of the commercial credit card receipts. This would provide staff with the means to verify charges listed on invoices and could speed up the payment process. MVM should also stress to the cardholders the proper use of commercial credit cards. Furthermore, the operators should be notified of the penalties associated with not submitting copies of the commercial credit card receipts and the improper use of the cards. MVM should enforce penalties including the repossession of cards for repeated misuse.

Management's Comment

Missing Receipts

We concur. Employees responsible for these transactions state they were instructed, by a previous supervisor, that it was not necessary to retain copies of the support documentation once audited and posted. MVM management responded immediately upon being made aware of the missing receipts. The procedures were reviewed with the employees, instructing that copies of the support documentation be maintained in accordance with state guidelines. The change in procedure was implemented February 2002.

Untimely Payments

We concur in part. Two (2) of the six (6) invoices submitted by BP did not have the proper support documentation and therefore could not be processed immediately. The vendor was contacted by MVM personnel and instructed to submit the necessary support. MVM cannot control vendor response time.

The remaining four (4) invoices submitted by Exxon were in process when the employee handling the transactions suffered a major medical event and was absent from work for an extended period of time (approximately 1 month). Her supervisor searched the work area and redistributed the work in progress. These invoices were inadvertently overlooked.

Inappropriate Use

We concur in part. MVM is in the final stages of eliminating the commercial credit card program. At the peak of the program there were approximately 1,700 active credit cards. Currently, there are 29 cards issued to Cabinet and Executive Level positions. Commercial fuel purchases for the period February 1, 2002, through April 30, 2002, represented .05% of total fuel purchased. MVM management feels the percentage is so insignificant that already stressed resources can better be utilized to monitor critical areas.

Auditor's Comment

Although MVM management feels the commercial credit card purchases are insignificant, it appears they should either monitor these purchases or eliminate the remaining 29 cards.

INTERNAL AUDIT

Our objectives were to determine whether

- internal auditors had the education, experience, and supervision necessary for their work to be relied on by other auditors;
- internal auditors prepared sufficient working papers to document their work; and
- internal auditors complied with established policies regarding content and amount of audits.

We interviewed key department personnel to obtain an understanding of the procedures and controls over internal audit. We reviewed all applicable policies and procedures. To determine whether the internal auditors had the education and experience needed for their work to be relied on by other auditors, we reviewed personnel files including supporting

documentation. We also reviewed internal audit's working papers for evidence of adequate supervision and to determine whether auditors adequately documented their work. To determine if all programs had been audited at least once during the past six years and if cost-reimbursement contracts greater than \$500,000 had been audited, we obtained and reviewed a listing of all audits completed during the audit period and during the past six years. We also selected a sample of audits completed during the audit period to determine if internal audit issued audit reports in compliance with the established policies and procedures.

Results indicated that the internal auditors had the education, experience, and supervision needed for their work to be relied on by other auditors and that internal audit issued audit reports in compliance with established policies and procedures. We also determined that the internal auditors adequately documented their work.

EXPENDITURES

Our objectives were to determine whether

- travel transactions were reasonable and valid,
- selected travel claims and supporting documentation complied with the Comprehensive Travel Regulations,
- payroll checks were distributed to employees through direct deposit according to Finance and Administration Policy 1, and
- maintenance disbursements were made for work authorized and performed.

We reviewed the applicable laws and regulations, interviewed key department personnel, and reviewed supporting documentation to gain an understanding of the controls and procedures over expenditures. We reviewed a listing of all travel claims to identify any unusual travel transactions and total travel expenditures by employee. We selected the five employees with the highest total travel expenditures and examined all of their travel claims for the audit period to determine if the travel claims and supporting documentation complied with the Comprehensive Travel Regulations and if the transactions were reasonable and valid. To determine whether the department was following the Department of Finance and Administration's Policy 1, we identified all payroll checks during the audit period not distributed through direct deposit. We also selected a nonstatistical sample of maintenance disbursements to determine if the work was authorized and performed.

Based on our interviews, reviews of supporting documentation, and testwork, we determined that travel expenditures appeared to be reasonable and valid, selected travel claims and supporting documentation complied with the Comprehensive Travel Regulations, payroll checks were distributed to employees through direct deposit in accordance with the Department

of Finance and Administration's Policy 1, and maintenance disbursements appeared to be for work authorized and performed.

CONTRACTS

Our objectives were to determine whether

- the procedures used to select vendors for statewide contracts complied with state guidelines,
- companies providing security guard services had been properly monitored to ensure guards were qualified and did not exceed maximum shift lengths as defined in the contract,
- the procedures used to limit emergency purchases to only true emergencies were adequate, and
- delegated purchase authority was used properly.

We interviewed key department personnel and reviewed the terms of the contracts to gain an understanding of the department's contract controls and procedures. To determine if the procedures used to select vendors for statewide contracts complied with state guidelines, we reviewed a nonstatistical sample of statewide contracts initiated during the audit period. We selected a nonstatistical sample of security guards and performed testwork to determine if the guards were screened, trained, and licensed/registered in compliance with *Tennessee Code Annotated*. We also performed testwork to determine if the hours worked by the guards were in compliance with the contract. We selected a nonstatistical sample of emergency purchases and performed tests to verify that they were for true emergencies. In addition, we reviewed a nonstatistical sample of delegated purchase authority contracts to determine if the contracts were adequately justified and properly approved.

Based on our testwork, we determined that the procedures used to select vendors for statewide contracts complied with state guidelines. We determined that the guards appeared to have been screened, trained, and licensed/registered in compliance with *Tennessee Code Annotated* and the hours worked appeared to be in compliance with the contract. We determined that emergency purchase procedures appeared to be in place and limited emergency purchases to true emergencies. We determined that the delegated purchase authority contracts appeared to be justified and properly approved.

FLEET MANAGEMENT SYSTEM

FleetTracker is a fleet management system that tracks leasing, location, and maintenance information for the state's vehicle fleet. Our objectives were to determine whether

- the policies and procedures manual and other system documentation were adequate and current,
- the password policy appeared reasonable,
- access controls were adequate and in place,
- reconciliation procedures were adequate,
- error correction procedures were adequate, and
- computer-generated data were valid and reliable.

We interviewed key department personnel to gain an understanding of the division's application controls environment. To determine if policies and procedures were adequate and current we examined the policies and procedures manuals, interviewed personnel, and observed daily activity. We reviewed the division's password policy to determine if it was reasonable and tested a nonstatistical sample of users to determine if the users were properly authorized for access to system resources. We reviewed reconciliation and error correction procedures to determine if they were adequate. We also performed computer-assisted auditing techniques (CAATs) to determine whether computer-generated data were valid and reliable.

Based on our interviews, examinations, and observations, we determined that the policies and procedures manuals and system documentation appeared adequate and current. We determined that the password policy appeared to be reasonable and users were properly authorized for access to the system resources. We determined that reconciliation and error correction procedures appeared to be adequate. We also determined that computer-generated data appeared to be valid and reliable.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year.

Our objective was to determine whether the department's June 30, 2001, and June 30, 2000, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2001, and June 30, 2000, responsibility letters submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to submission deadlines. We determined that the Financial Integrity Act responsibility letters were submitted on time.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Department of General Services filed its compliance reports and implementation plans on June 30, 2000, and June 29, 2001.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

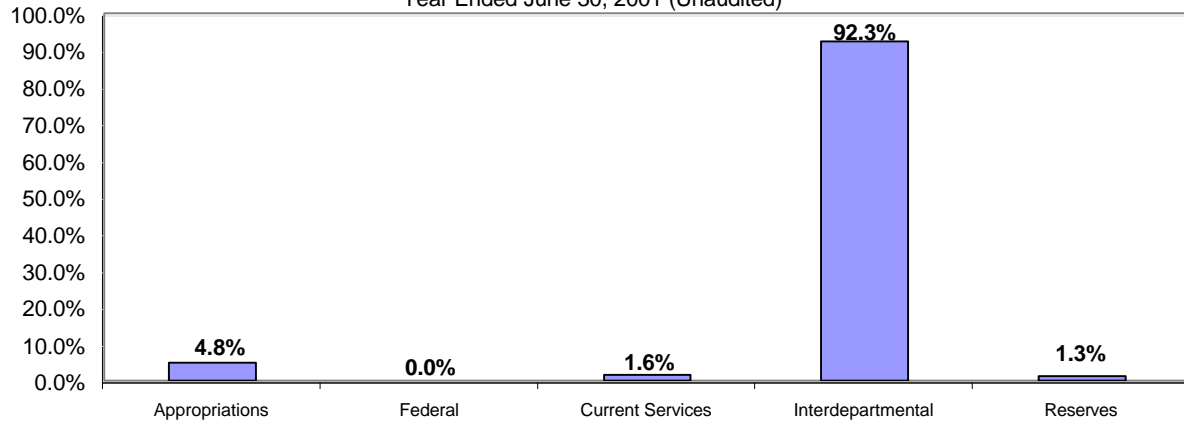
ALLOTMENT CODES

Department of General Services' allotment codes:

321.01	Administration
321.02	Postal Services
321.04	Property Utilization
321.06	Motor Vehicle Management
321.07	Property Management
321.09	Printing
321.10	Purchasing
321.15	Systems Management
321.17	Records Management
321.18	Central Stores
321.19	Comprehensive Food Services Program
501.01	Facilities Revolving Fund – Building Maintenance
501.02	Facilities Revolving Fund – Project Maintenance

Funding Sources

Year Ended June 30, 2001 (Unaudited)

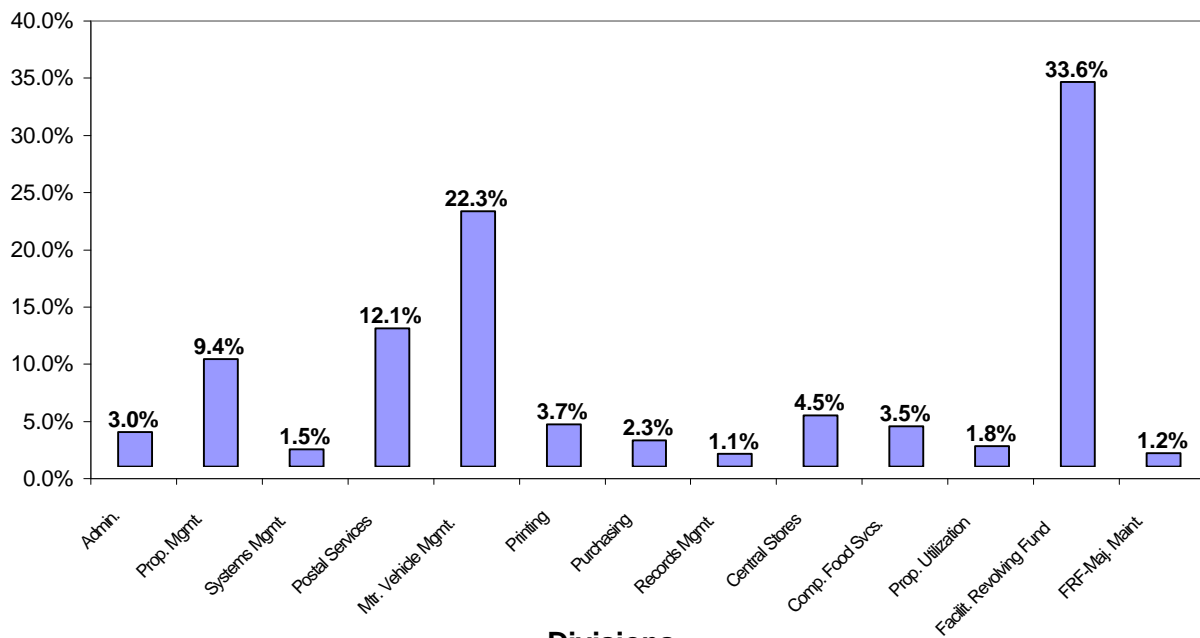


Sources

Source: Department of General Services

Expenditures by Allotment and Division

Year Ended June 30, 2001 (Unaudited)

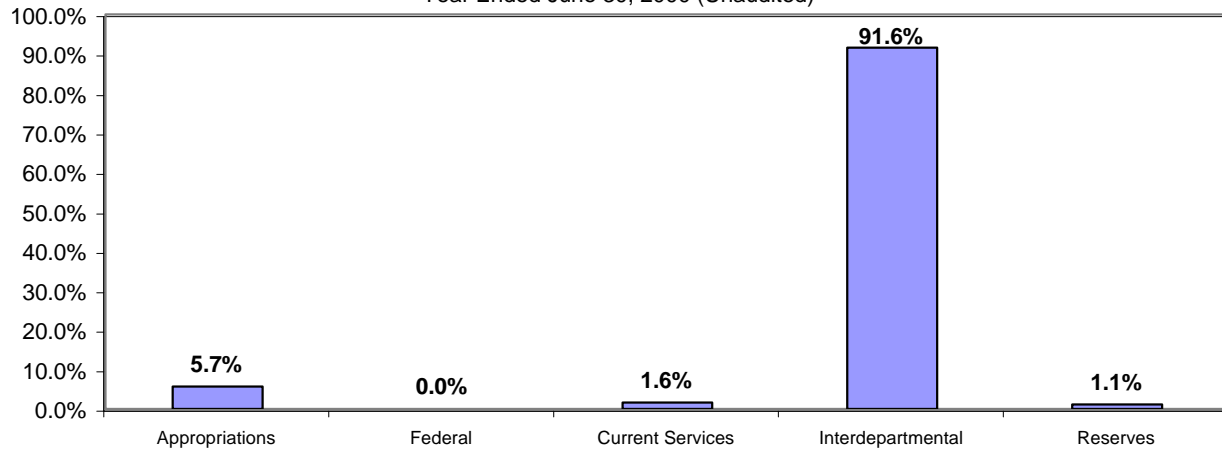


Divisions

Source: Department of General Services

Funding Sources

Year Ended June 30, 2000 (Unaudited)

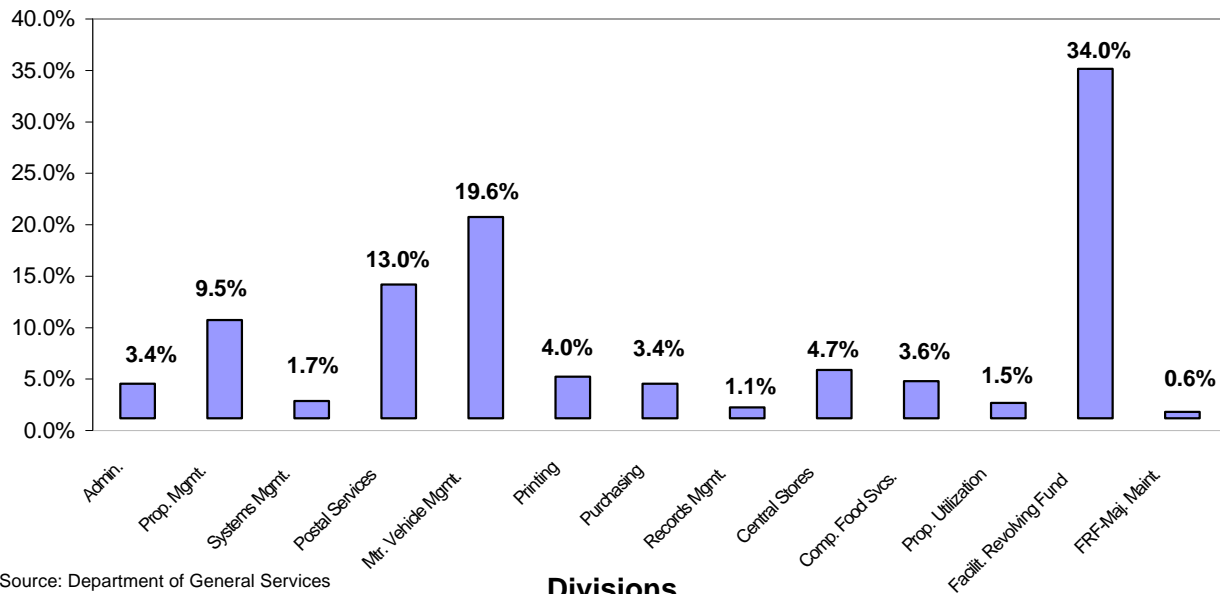


Source: Department of General Services

Sources

Expenditures by Allotment and Division

Year Ended June 30, 2000 (Unaudited)



Source: Department of General Services

Divisions